

Message Text

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ACTION ARA-10

INFO OCT-01 EB-07 ISO-00 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 PA-01 PRS-01 /055 W

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FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 5078

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E.O. 11652: N/A

TAGS: EFIN, ECON, CI

SUBJECT: INTEREST RATE FALL HAILED AS GOOD SIGN IN INFLATION FIGHT

REF: SANTIAGO 6669

1. SUMMARY. MONEY MARKET RATES OF INTEREST FELL SHARPLY FIRST WEEK IN OCTOBER. ECONOMIC POLICYMAKERS ARE PROCLAIMING THIS DEVELOPMENT AS INDICATION OF BREAK IN INFLATIONARY PSYCHOLOGY. END SUMMARY.

2. SEVERAL LOCAL FINANCIAL INTERMEDIARIES ANNOUNCED ON OCTOBER 1 THAT THEY WERE LOWERING INTEREST RATES BOTH TO THEIR DEPOSITORS AND TO BORROWERS. DECISION WAS APPARENTLY PRECIPITATED BY REQUEST FROM MINISTER OF FINANCE AND MONETARY AUTHORITIES THAT THEY CONSIDER REVISING NOMINAL INTEREST RATE PAID DEPOSITORS TO EIGHT PERCENT AND RATE CHARGED BORROWERS TO 12 PERCENT.

3. ACTION FOLLOWED WIDESPREAD COMPLAINTS THAT NOMINAL RATES TO BORROWERS (GENERALLY IN 15 TO 20 PERCENT RANGE) WERE GREATLY OUT OF LINE WITH MONTHLY RATE OF INFLATION (ABOUT 9 PERCENT IN JULY, AUGUST AND SEPTEMBER). AT LEAST SOME DOWNWARD PRESSURE WAS ALREADY BEING FELT AT A FEW LOCAL BANKS. ONE SMALL COMMERCIAL BANK LOWERED ITS RATE SUBSTANTIALLY TWO WEEKS AGO, AND, ACCORDING TO PRESS, ONE LARGE AND ONE SMALL BANK LOWERED RATES CHARGED BORROWERS TO 12 PERCENT IMMEDIATELY PRECEDING REQUEST BY AUTHORITIES TO
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OTHER INSTITUTIONS.

4. COMMENT. DOWNWARD ADJUSTMENT IS BEING HAILED AS INDICATION OF FALLING INFLATIONARY EXPECTATIONS AND INDEED, DESPITE THE "JAWBONING" ELEMENT INVOLVED, THIS IS HOPEFUL SIGN THAT RECENT TREND OF DECELERATING INFLATION WILL CONTINUE. AT SAME TIME IT IS NOTEWORTHY THAT WHILE DIFFERENTIAL BETWEEN DEPOSIT AND LOAN RATES HAS NARROWED, IT NONETHELESS REMAINS VERY WIDE. AT PRESENT RATES OF INFLATION A DEPOSITOR WOULD BARELY MAINTAIN THE REAL VALUE OF HIS INVESTMENT, IF THAT, WHILE FINANCIAL INTERMEDIARIES WILL STILL BE CHARGING THEIR CUSTOMERS REAL ANNUAL RATE OF INTEREST OF 40 PERCENT OR MORE.

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